



Defense Energy Support Center/ DLA Enterprise Support/ Defense National Stockpile Center

Acquisition Workforce Address

July 18, 2005

*Right Item, Right Time, Right Place, Right Price,
Every Time...
Best Value Solutions For America's Warfighter*



Agenda

- **DLA Transformation**
- **Acquisition Executive Focus**
- **Other Timely Acquisition Issues**
- **Integrity**
- **Summary**



Top Five Priorities

- **Mission -**
 - Support to the Warfighter
 - DPO
- **Transformation -**
 - Enhanced Capabilities for the Future Warfighter
- **People -**
 - Transforming Our Human Capital and the Workplace
- **Alignment -**
 - To Customers...To Supply Chains
- **One Enterprise -**
 - Seamless Partnering for Logistics Support



The DLA Enterprise

FY01 Sales/Services:
\$17B

FY02 Sales/Services:
\$21.5B

FY03 Sales/Services:
\$25B

FY04 Sales/Services:
\$28B

FY05 Projection:
\$28.7B

Non-Stop Support
\$11.9B

- Energy:**
\$7.0B
- Distribution:**
\$2.6B

Foreign Military Sales

- \$1.1B**
- Sales: \$813.8M**
- ~95% of Services' repair parts**
- Shipments: 501K**
- Supporting 124 Nations**
- 100% of Services**

Scope of Business

- 54,000 Requisitions/Day**
- 8,200 Contracts/Day**
- #55 Fortune 500 - Above Northrop Grumman**
- #2 in Top 50 Distribution Warehouses**
- 26 Distribution Depots**
- 5.2 Million Items**
- 24.7M Annual Receipts and Issues**
- 1411 Weapon Systems Supported**
- 144.0M Barrels Fuel Sold (FY 04)**
- \$14.6B Annual Reutilizations/Dispositions**

People

- 21,429 Civilians**
- 528 Active Duty Military**
- 615 Reserve Military**
- Located in 48 States/28 Countries**



DLA Transformation

- ✓ Business Systems Modernization
- National Inventory Mgmt Strategy
- Distribution Planning Mgmt System
- Global Stock Positioning
- Customer Relationship Mgmt
- Executive Agency
- Product Data Mgmt
- Integrated Data
- Workforce Transformation
- ✓ Supplier Relationship Mgmt
- Fuels Automated System



Enterprise Procurement Process/Policy Description

- **Process Enterprise**

- Multi-disciplinary teams with a customer and outcome focus
- Follows explicit designs
- Focused on and accountable for results striving for never-ending improvement

- **Process Management**

- Process to begin with Hardware and Troop Support then move to the rest of the Enterprise
- Focuses on processes required to perform the business and measures outcomes rather than tasks

Standard Systems, Standard Processes, Standard Policies



DLAD Procedures, Guidance and Information (PGI)

- **DLAD, the Regulation -**

- **Clear requirements and procedures of law**
- **Mandatory DLA-wide policy - force and effect of law**
- **Deviations from higher level regulations**
- **Designations/delegations of contracting authority**

- **Procedures, Guidance, and Information (PGI)**

- **Non-regulatory, internal guidance, common instructions, information, and procedures (optional and mandatory)**
- **Supplement DFARS PGI; create new PGI; move related text; relocate text from Part 90**
- **Provide descriptive “link” in DLAD to PGI text**



Enterprise Procurement Process/Policy Objectives/Benefits

Objectives:

- Common process design and documentation
- Enterprise policy, guidance and business rules
- Enterprise training and support systems
- Outcome-focused based on process performance

Benefits:

- Consistent Engagement with Suppliers
- Organizational agility to respond to changing business environments
- Lower operational costs
- Reduced overall response times

Single View of DLA to Industry



SAP eProcurement Update

- OSD/DPAP was briefed on April 20, 2005
- Release One Software - Automated Delivery Order Capability
- Release Two Software - Automated Simplified Acquisition Process, Complex Document Generation, Records Management

✓ = Complete

	Release 1	Release 2
Use Cases	Dec 13, 2002 ✓ Phase 1	Aug 1, 2003 ✓ Phase 3
Specifications	Mar 19, 2003 ✓ Phase 2	May 11, 2004 ✓ Phase 4
Software Delivery	Oct 31, 2003 ✓ Phase 3	Apr 18, 2005 ✓ Phase 4
Acceptance	Dec 19, 2003 ✓ Phase 4	Sept 16, 2005 ✓ Phase 5



BSM Impacts DES

- **Operational Accounting (OA) is being implemented in BSM Release 2.2**
 - OA supports DoD's mandate for auditable financial statement by FY07
 - DBMS is not FFMIA compliant and must be replaced
 - BSM/SAP is financially compliant
- **Beginning with BSM Release 2.2 in January 2006**
 - DES Procurement resources will manually enter Purchase Order (PO) and PO modification information into SAP
 - BSM Finance and Procurement Solution Integration teams are developing the functionality, system access and training for the affected DES personnel



Supplier Relationship Management





Supplier Relationship Management (SRM)

Objective:

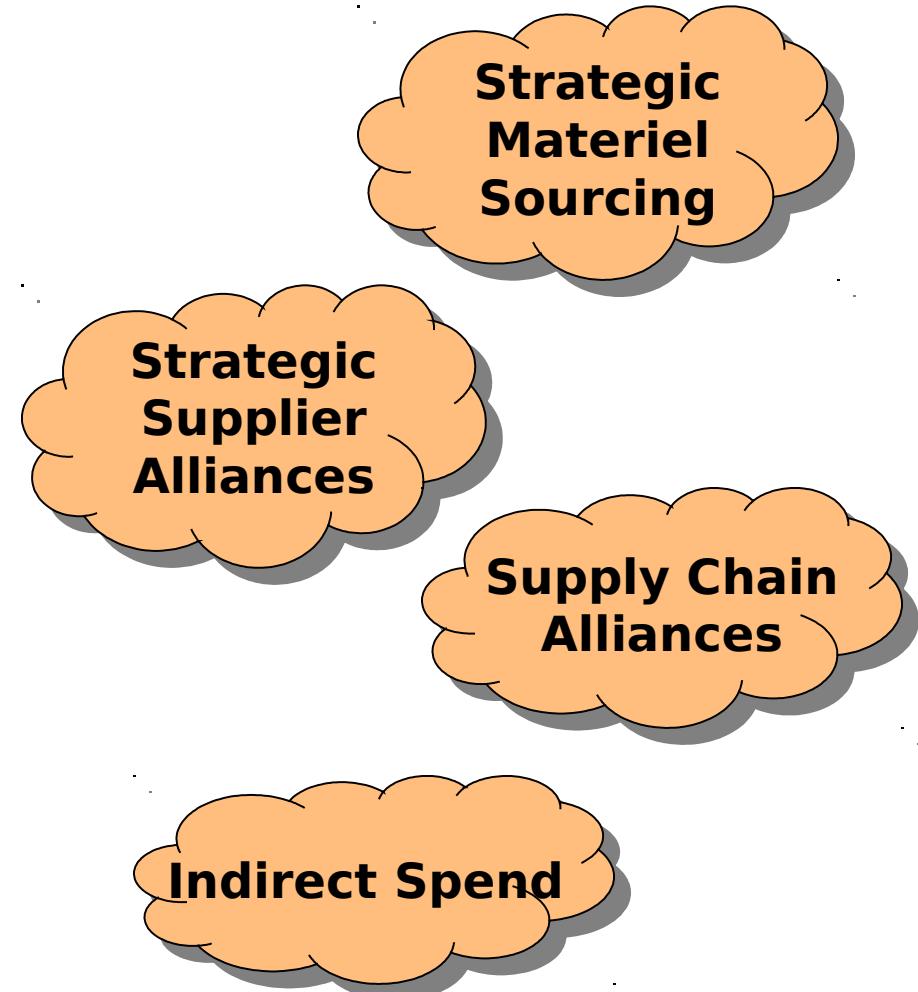
- **Build and optimize relationships with selected suppliers while:**
 - Evaluating supplier capability
 - Monitoring supplier performance
 - Jointly solving problems
- **Supplier Relationship Managers are DLA's single face to the supplier**

Approach is consistent with industry practice/literature



Spend Analyses

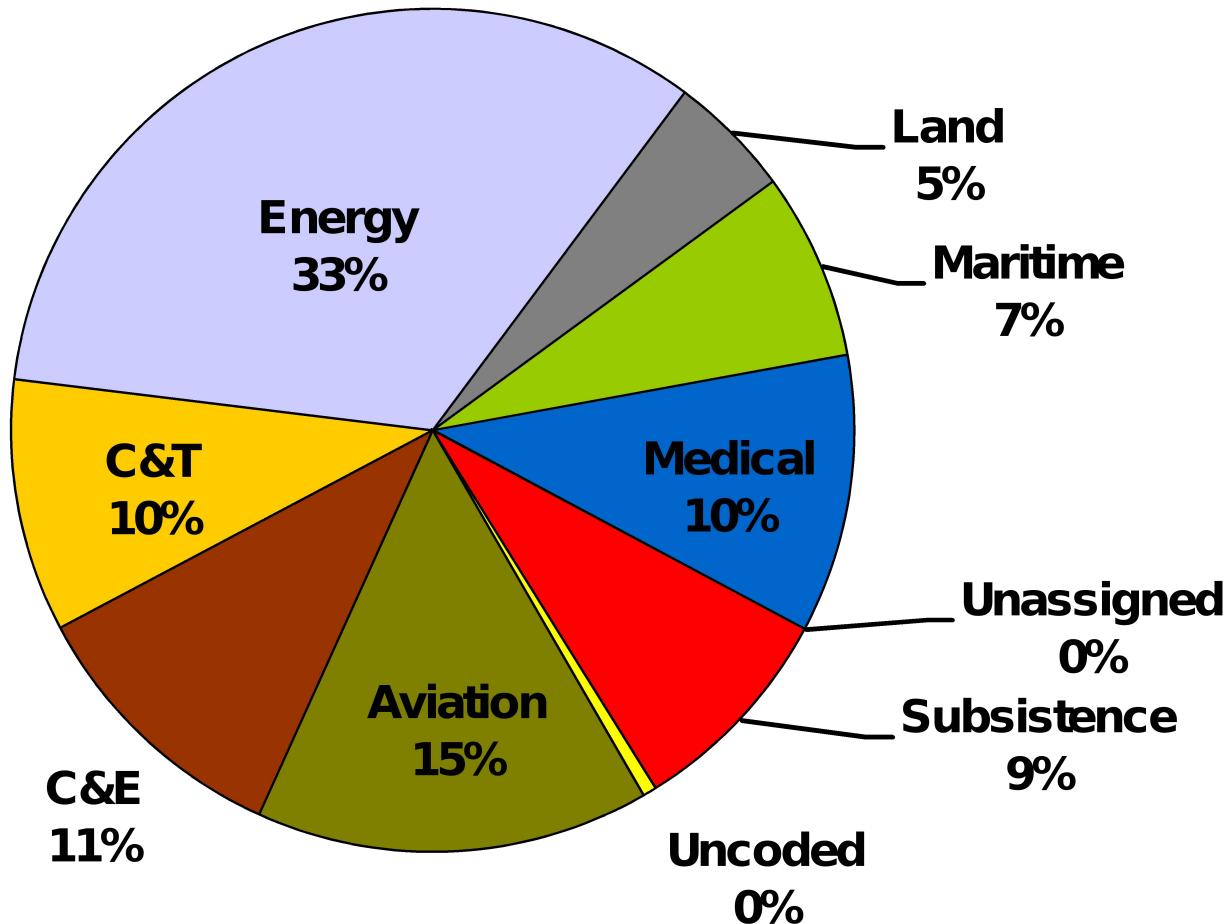
- Items
 - Sales/Demand volume
 - Readiness
 - Revised annually
- Vendors
 - Sole Source
 - Sales Volume
 - Long-Term Contracts
- Support Services
 - Services
 - Items





Spend Analysis Breakdown across DLA

Total Spend Across Enterprise = \$ 57,035,962



Supply Chain Breakdown

- Energy = \$19 B
- Aviation = \$8.4 B
- Medical = \$5.9 B
- C&T = \$5.5 B
- Subsistence = \$4.8 B
- Maritime = \$4.1 B
- Land = \$2.6 B
- C&E = \$6.0 B
- Uncoded = \$0.28 B
- Unassigned = \$0.006 B

Uncoded indicates spend that is missing CAGE data, Supplier data, or both

Unassigned indicates spend on items that have not yet been assigned to a Supply Chain



Top 20 DLA Suppliers

Suppliers highlighted in yellow represent SSA

<u>Supplier</u>	<u>SumOfTotal Obs</u>	<u>Supply Chain</u>
SHELL OIL PRODUCTS US	\$2,145,908,588	Energy
EXXON MOBIL CORPORATION	\$1,505,513,999	Energy
BP ENERGY COMPANY (FORMERLY AM)	\$1,442,616,066	Energy
VALERO MARKETING AND SUPPLY CO	\$1,289,749,822	Energy
BERGEN BRUNSWIG DRUG COMPANY	\$1,279,523,357	Medical
BINDLEY WESTERN INDUSTRIES	\$1,090,425,156	Medical
MCKESSON HBOC, INC	\$1,079,179,825	Medical
CARDINAL HEALTH, INC	\$823,183,061	Medical
PUBLIC WAREHOUSING COMPANY KSC	\$804,163,843	Subsistence
General Electric Co	\$656,829,918	AVTN
Honeywell	\$538,941,147	AVTN
KUWAIT PETROLEUM CORPORATION	\$538,383,435	Energy
LG-CALTEX OIL CORPORATION	\$535,319,648	Energy
THE WORNICK COMPANY RIGHT AWAY	\$532,431,142	Subsistence
SSANGYONG (U S A), INC	\$508,735,814	Energy
NATIONAL CENTER FOR EMPLOYMENT OF THE DISABLED	\$495,267,939	C&T
THE BAHRAIN PETROLEUM COMPANY	\$480,166,807	Energy
MOTOR OIL (HELLAS) CORINTH REF	\$479,593,203	Energy
ABU DHABI NATIONAL OIL CO	\$472,181,520	Energy
SAIC D/B/A PROURENET INC. AND	\$471,161,560	C&E

Total DLA Spend = \$57,035,962,584 (Represents nearly 20,000 suppliers)

DLA Top 20 = \$17,169,275,849 or 30% of Total DLA Spend

446 Suppliers represent 80% of the DLA spend = Approximately 2.2% of DLA supply base



Strategic Supplier Alliances

- **Who:** Two (or more) parties with common objectives and an expected long term involvement in mutually pursuing those objectives
- **What:** Signed agreement between members, negotiated in good faith, and built on trust, to collaboratively pursue common objectives
- **Why:** Significantly improves the potential of successfully accomplishing their objectives
- **How:** Executed through a multi-phased and multi-layered process

Foundation for building beneficial relationships & leveraging our total capabilities



Strategic Supplier Alliances

Italics formatting indicates

FY02	FY03	FY04	FY05/06
<i>Boeing</i>	<i>Avibank</i>	<i>Eaton</i>	<i>Alcoa Fastening System</i>
<i>Pratt & Whitney</i>	<i>Canadian Commercial Corporation</i>	<i>Osh Kosh</i>	<i>GDLS</i>
<i>General Electric</i>	<i>Hamilton Sundstrand</i>	<i>AM General</i>	York
<i>Parker Hannifin</i>	<i>Textron</i>	<i>Goodrich</i>	Smiths Aerospace
<i>Northrop Grumman</i>	<i>Sikorsky</i>	<i>Rolls Royce</i>	Marotta Controls, Inc*
<i>Dresser Rand</i>		<i>Systems</i>	
<i>BAE Systems</i>		<i>Moog, Inc.</i>	
<i>Honeywell</i>		<i>United Defense LP</i>	
<i>Lockheed Martin</i>		<i>Raytheon</i>	
		<i>Warren Pump</i>	

Navy Alliance
Air Force Alliance
Amy Alliance
No Service Partner

Semi-annual Senior Executive Roundtables

Service &
DLA
Combined
Leverage =
Availability,
Performance,
Affordability



Supply Chain Alliances

- **Supply Chain Alliances are currently being developed**
- **These will allow DLA to build stronger relationships with:**
 - Competitive Suppliers
 - Sole Source Suppliers that do not require the same level of attention as the initial SSAs
 - Specific Suppliers – Troop Support and Energy
- **Spend Analysis of vendors will be leveraged in determining appropriate candidates beyond the initial alliance with DERCO**
- **Supply Chain Alliance Goals**
 - FY '05 – 3
 - FY '06 – 7



DLA Small Business

FY05 May Report Card

Grade = B

Elements <i>Prime Contracting</i>	Target FY05	May Perf FY05	May Grades FY05
Small Business	39.0%	38.2%	B
HUBZone Small Business	2.0%	3.4%	A
*Small Disadvantaged Business	4.1%	4.5%	A
Women-Owned Small Business	3.7%	5.3%	A
Service-Disabled Veteran-Owned SB	0.7%	0.41%	B

***8(a) - Subset of SDB**

1.12%

0.92%



DESC Small Business FY05 May Report Card

Grade = B

Elements <i>Prime Contracting</i>	Target FY05	May Perf FY05	May Grades FY05
Small Business	23.0%	24.6%	A
HUBZone Small Business	2.1%	2.3%	A
*Small Disadvantaged Business	3.8%	1.9%	F
Women-Owned Small Business	1.3%	0.6%	D
Service-Disabled Veteran-Owned SB	0.7%	0.00%	D

***8(a) - Subset of SDB**

0.50%

0.07%



DES Small Business FY05 May Report Card

Grade = A

Elements <i>Prime Contracting</i>	Target FY05	May Perf FY05	May Grades FY05
Small Business	20.5%	33.9%	A
HUBZone Small Business	2.1%	1.8%	B
*Small Disadvantaged Business	6.0%	28.2%	A
Women-Owned Small Business	2.7%	3.9%	A
Service-Disabled Veteran-Owned SB	0.7%	0.40%	C

***8(a) - Subset of SDB**

1.00%

1.12%



DNSC Small Business FY05 May Report Card

Grade = A

Elements <i>Prime Contracting</i>	Target FY05	May Perf FY05	May Grades FY05
Small Business	95.0%	96.4%	A
HUBZone Small Business	3.1%	8.8%	A
*Small Disadvantaged Business	57.5%	89.5%	A
Women-Owned Small Business	1.3%	6.7%	A
Service-Disabled Veteran-Owned SB	3.0%	3.30%	A

***8(a) - Subset of SDB**

57.50%

84.45%



Defense Acquisition University

Transformation

- **Focus on *Mission* and *Currency***
- **New Level III Contracting Certification Requirements**
 - “Advanced Business Solutions for *Mission* Support”
 - (2 weeks in-residence) plus,
 - Two electives:
 - Agreed upon as part of employee’s IDP
 - Meaningful for progression/enhancement in career *field*
 - Broad parameters (no “hard and fast” requirements)
- **Level I and II certification requirements currently undergoing similar transformation**
- **Continuous Learning still required for those not in pursuit of further certification (80 hours every 2 years)**

Case Studies are from current issues and problems

Allows tailoring to meet needs of the individual and the organization

Acquisition Personnel are Professionals!



Professional Development via Rotational Assignments

- **Rotational assignments are excellent opportunities for development**
 - Broaden perspective and experience base
 - Gain new in-sights and develop new skills
 - Enhance value to organizations
 - Improve advancement opportunities
 - Keep the reviewers “involved, but independent”
- **Local opportunities as well as off-site opportunities**
 - DLA Professional Enhancement Program
 - OSD, DAU Fellowship, Military Departments, etc.

Be a Leader, Volunteer for the Tough Jobs!



Acquisition of Services

- **Acquisition of services is an area of increasing visibility and steady interest to the Department, Congress, the GAO, and the public.**
- **Statute and Departmental policy require DOD components to have a structured approach to managing service acquisitions.**
 - Enterprise-wide policy is contained in DLAD Parts 7, 37, and 90.
 - The review and approval (decision) authority for each dollar threshold is set forth in 37.590-4.
 - You should review your local policy to ensure that it complements and reflects higher-level coverage, and that all acquisitions are submitted for local and/or HQ review, as appropriate
- **DoD is currently reviewing Components' policy coverage and performance in service contracting; we may be required to brief DPAP on some of our largest service acquisitions.**



Performance-Based Service Acquisitions (PBSA)

- DOD requires Components to performance-base 50% of all service contracting \$\$ by FY2005.

	FY 01	FY 02	FY 03	FY 04
DLA	36%	26%	36%	42%
DESC	74%	57%	46%	23%
DNSC	29%	5%	85%	33%
DES	19%	2%	6%	9%

- Goal is to have 50% of all service contracting & reporting of service contracts.





Use of Non-DoD Contracts

- **PROCLTR 05-01, “Proper Use of Non-DOD Contracts,” signed January 12, 2005.**
 - Implements Departmental policy contained in a Memorandum jointly signed by USD(AT&L) & PDUSD Comptroller on October 29, 2004.
 - Applies to use of all non-DOD contracts, whether entered into as direct orders or as assisted acquisitions, when values exceed \$100K.
 - Requires collaborative effort between contracting and financial personnel.
 - Update being drafted to provide DLAD coverage on use of MIPRs.
- **The Agency’s joint signature memorandum, signed by the Agency Comptroller and me, was released on March 25, 2005. It made the OSD policy applicable to the entire DLA community.**
- **A Department-level “road show” on proper use, presented by representatives from OSD, the military services, and DLA, will be given in July in Washington, and subsequently at various locations throughout the U.S.**



USE OF GSA'S FEDERAL SUPPLY SCHEDULES (FSS)

- **The OSD Director of Procurement and Acquisition Policy (DPAP) is calling for increased scrutiny of FSS buys.**
 - Price reasonableness determinations for orders against FSS to be reviewed during the procurement management review (PMR) process.
 - Acquisition planning, review and approval procedures IAW "Proper Use of Non-DOD Contracts" policy.
- **Awards against the FSS in FY04:**
 - DESC: \$58.5M
 - DNSC: \$2.6M
 - DES: \$90.1M



Bundling and Consolidation

- **Bundling and consolidation of requirements continue to be the most contentious small business issues with which contracting personnel must deal.**
- **Chief points to remember:**
 - Bundling: Government-wide applicability. Consolidation: only applies to DOD.
 - Bundling can occur at any dollar level (substantial bundling over \$7M); consolidation occurs at \$5M and above.
 - Bundling: combinations of requirements, some/all of which were or could have been performed previously by small business.
 - Consolidation: any combination of requirements previously performed separately by businesses of any size.
 - Must do benefits analysis for both. For bundling, benefits must be quantified.
 - Must demonstrate that the bundling/consolidation is necessary and justified.



Procurement Policy

DOD EMAIL Policy Memo - Ordering tool

- Types of contracting vehicles
 - ID/IQ contracts
 - CVC Contracts – DLAD 17.9401
 - BPAs
 - FSS Contracts



Pricing

- **Basics**

- Use price analysis techniques prescribed in FAR
- Use J-3313 cost/price analysts when necessary
- Document all decisions

- **Overpricing**

- Erodes the confidence of the taxpayers and our customers
- Reduces the amount of weapons and equipment available to the warfighters
- Is not reflective of a professional acquisition workforce



Integrity and Trust

- Independence of the Contracting Officer is a key to avoiding undue internal pressure on Contracting Officers
- Financial disclosure statements are used to minimize the possibility that a decision-maker will be unduly influenced by external sources
- Procurement Sensitive Data must be protected to minimize the possibility that others will breach our integrity
- Pro-active Procurement Management Reviews and Contract Reviews
- Reactive - Hotline complaints; IG/GAO audits; other inquiries
- Training - Annual Ethics Training is provided by General Counsel *plus the one-time USD A,T&L ethics training for FY05*
- Advisors - General Counsel encourages you to consult with them if you are uncertain about a particular action
- From a practical perspective giving cause for our integrity to be questioned can potentially derail our most important initiatives.

Avoiding the appearance of impropriety needs to be our standard



Summary

- **Your efforts make a difference!!**
- **Continue to improve support to the warfighter in this dynamic environment while ensuring contracting basics are adhered to with absolute integrity!**

DLA is a Leader in DoD Contracting



Questions?